

CITY OF ARLINGTON
Snohomish County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. City Officials Should Improve Federal Financial Reporting To Provide Assurance That Reports Are Accurate And Only Include Eligible Costs

Our tests of federal financial reports disclosed unallowable costs and an error in preparing "Requests For Advance Or Reimbursement." We found the city claimed \$455.25 for an airport improvement which was not allowable per the grant contract. This amount is offset by \$160.00 in allowable costs that were not claimed resulting in net questioned costs of \$295.25. Additionally, we found that the city claimed engineering services amounting to \$1,810 twice in reports to the Washington State Department of Transportation. These claims are included in our Schedule of Questioned Costs.

OMB Circular A-87, *Cost Principles for State and Local Governments*, requires that all costs charged to federal programs be allowable and adequately supported.

Additionally, the U.S. Office of Management and Budget in its "Common Rule" requires accurate reporting as follows:

Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant. . .

The unallowable cost charges and the error in billing resulted in part from the failure of city officials to reconcile federal reports to the general ledger and from the lack of segregating responsibilities for the preparation and review of federal financial reports.

We recommend that city officials improve procedures for preparing federal financial reports to provide greater assurance that all costs are allowable and that these reports provide for accurate, current, and complete disclosure of the financial results of financially assisted activities.

We specifically recommend that city officials reconcile the reimbursements request to the general ledger and document the review.

2. Procedures For Preparing The Schedule Of Federal Financial Assistance Should Be Improved

The city's Schedule of Federal Financial Assistance for 1992 was incomplete. Our tests identified additional federal assistance expenditures totaling \$130,000 that were not included in the city's preliminary schedule. The schedule included with this report has been revised to include those funds. A similar condition was reported in our 1991 audit report (Report No. 54567).

The Office of Management and Budget's (OMB) "Common Rule," Subpart C 20[b](1) requires accurate reporting as follows:

Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

This omission resulted in part from the failure of city officials to completely reconcile the schedule to the general ledger.

We again recommend that city officials improve procedures for preparing the Schedule of Federal Financial Assistance to provide assurance that it is complete.

We specifically recommend that city officials reconcile the schedule to the general ledger.

3. The City Should Improve Monitoring For Compliance With The Davis-Bacon Act

The city contracted for the construction of the "Smokey Point Rest Area Extension - Phase I." This project was partially funded by a grant from the U.S. Department of Transportation through the Washington State Department of Transportation.

A review of Davis-Bacon requirements indicated that the contractor underpaid five employees by \$1,494.79. Employees were apparently paid one wage classification lower than the wage classification for the work actually performed.

In addition, the city did not require the contractor to provide timely submission of:

- a. The "Statement of Intent to pay Prevailing Wages", or,
- b. The "Certified Payroll Records and Statements of Compliance" as required by the Federal Contract Provisions Section V "Statements and basic records."

General administrative requirements for all federal assistance programs require compliance with the Davis-Bacon Act. That requirement states in part:

When required by federal grant program legislation, all laborers and mechanics employed by the contractors or subcontractors to work on construction projects financed by federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. [40 Stat 1494, Mar. 3, 1921, Chap. 411, 40 U.S.C. 276A-276A-5].

The city contracted with a surveying and engineering firm to provide construction supervision for the grant project, including monitoring for Davis-Bacon compliance. City staff believed the Davis-Bacon requirements were being reviewed and monitored by that firm.

Without an effective system to monitor contractor compliance with prevailing wage requirements the city cannot be assured that the prevailing wage rates were paid to employees of the contractor. The city is also exposed to the risk of losing future federal assistance.

We recommend that the city obtain the necessary documentation from the contractor to determine if prevailing wage corrections were paid.

We further recommend the city improve monitoring of future contracts to ensure compliance with prevailing wage requirements.

4. The City Should Establish Controls To Ensure That "Buy American" Provisions Are Included In Contracts Funded Through FAA Grant Agreements

Our tests of U.S. Department of Transportation, Federal Aviation Administration (FAA), Airport Improvement Program grant expenditures disclosed that the city has not included all required provisions in every contract.

The Airport Improvement Program grant contract requires that the following provision be included in every contract:

Unless otherwise approved by the FAA, it will not acquire or permit any contractor or subcontractor to acquire any steel or manufactured products produced outside the United States to be used for any project for airport development or noise compatibility for which funds are provided under this grant. The sponsor (i.e. the City of Arlington) will include in every contract a provision implementing this special condition.

The city has not included the above provision in every contract for the grant project.

We recommend that city officials implement control procedures to ensure that the above provision be included in all AIP grant assisted contracts and to ensure contractor compliance with prohibitions to acquire any steel or manufactured products produced outside the United States.